

11 December 2009

Ms Chloe Youl  
Strategic Policy  
Australian Securities and Investment Commission  
GPO Box 9827  
MELBOURNE VIC 3001

**BY POST & EMAIL:**

Dear Ms Youl,

**SUPERANNUATION FORECASTS – CONSULTATION PAPER 122**

Thank you for the opportunity to provide feedback on the consultation paper released by ASIC on 21 October 2009.

The Investment & Financial Services Association Limited (“IFSA”) is the national peak body representing the Retail & Wholesale Funds Management, Superannuation and Life Insurance industries. IFSA has over 135 members who are responsible for investing over \$1 trillion on behalf of more than ten million Australians.

IFSA believes that the Draft Regulatory Guide issued by ASIC provides an appropriate mechanism for the superannuation industry in assisting super fund members to engage with their superannuation.

In the pursuit of a comfortable retirement, it remains of the utmost importance that super fund members consider whether their saving rates for retirement are likely to be adequate. This regulatory relief will equip super fund members with the ability to better establish whether they are on the right savings trajectory.

Of significant importance to IFSA has been to ensure that projections are considered in light of superannuation as a long term investment, that projections not be misleading and not be used for comparative purposes. IFSA is therefore pleased that all key assumptions are to be standardised by the Government Actuary with ASIC’s guidance.

We are also satisfied that mandatory content, such as warnings and disclosures, will be required and that benefits will be expressed in a lump sum and an income stream in today’s dollars.

There remain areas of concern with the Draft Regulatory Guide which are addressed throughout our response. These are chiefly in relation to the assumed retirement age, life expectancy and the assumptions underpinning superannuation calculators. We seek further guidance on the operation of the relief in these areas.

Yours sincerely



**JOHN BROGDEN**



Investment & Financial Services Association Ltd

## ASIC Consultation Paper 122:

### Superannuation Forecasts: ASIC Relief and Guidance for Super Funds

#### Proposal B1:

*To give class order relief from the licensing provisions of the Corporations Act to super fund trustees who provide retirement forecasts to their existing members with their periodic statements. This relief would be given on the condition that:*

- *The forecasts set out the mandatory content, including warnings and disclosures;*
- *A member's retirement benefit is calculated taking into account all of the required variables and using the default assumptions; and*
- *Forecasts are given at the same time as periodic statements and are included in or accompany the statements.*

*For a super fund trustee who already holds an AFS Licence with an authorisation to give personal advice, we will still give relief from the personal advice, conduct and disclosure requirements of Pt 7.7.*

**B1Q1. Do you think that any particular types of funds should be excluded from relying on relief? (RG 000.19-RG 000.20) Please give reasons.**

Given the non-mandatory nature of forecasts, along with the considerations that trustees of the different funds need to make, IFSA believes it is not necessary to exclude particular funds from relying on relief.

Defined Benefit Schemes by definition are established to provide a specific end benefit. However, to the extent that a Defined Benefit Scheme offers a hybrid interest or defined contribution (accumulation) interest, the trustees of such funds may wish to avail themselves of the relief for those segments of the fund.

Self Managed Superannuation Fund Trustees are generally also the fund members and would be unlikely to perform a formal notifiable forecast for their own purposes.

In addition, there may be instances where the cost will outweigh the benefit of doing so - for example in the case of Eligible Rollover Funds.

*B1Q2. Can you foresee any specific difficulties in including the content set out in Section B of the draft regulatory guide? If so, please provide details.*

IFSA believes the proposed content requirements under Section B in the Draft Regulatory Guide for calculating Forecasts, Current Account Balance and Contributions, are appropriate and will not cause any difficulties for providers or fund members.

The yet to be prescribed levels of Investment Earnings, Fees and Costs are central to this exercise. IFSA supports ASIC's proposed approach by way of outlining standard and universal investment returns and fees. We do not foresee any difficulty with this aspect of the process.

We recognise that it is important that such universal investment returns, fees and costs are set at appropriate levels which accurately reflect market averages over the longer term. We await the issuance of the Class Order which will define Investment Earnings, Fees and Costs and look forward to providing our input.

In terms of policy determinations around the Retirement Date and Life Expectancy, the Draft Regulatory Guide has not clearly specified how these terms will be defined. IFSA notes that the forthcoming Class Order will resolve these questions.

IFSA submits that neither the superannuation preservation age nor the statutory retirement age benchmark would be appropriate for this purpose as both of these dates are liable to change.

Consequently we recommend that age 65 (fixed) will be specified in the forthcoming Class Order as the Retirement Date for the purposes of forecasts. Age 65 falls in between the preservation age for superannuation and the statutory retirement age.

The Retirement Date should be fixed so as to provide a stable benchmark for fund members to determine their retirement savings adequacy. A fixed age will ensure stability within this key parameter. This will enhance member understanding of forecasts and prevent confusion.

For consistency, life expectancy should be a fixed 30 year period from the age of 65 in order to deliver a conservative estimate, which is increasingly consistent with demographic trends.

IFSA's earlier submission provided an example of how a super forecast could be presented. It is copied below for your consideration.

Although IFSA remains in support of allowing funds to determine the best way to display a forecast, the following example is a simple and easily understood presentation.

**EXAMPLE: Your Forecast:**

Based on the details of your fund, the standard assumptions provided by the Government Actuary, your current account superannuation balance and the continuation of current savings patterns until you are aged 65 years, we have projected that your balance will grow as follows.

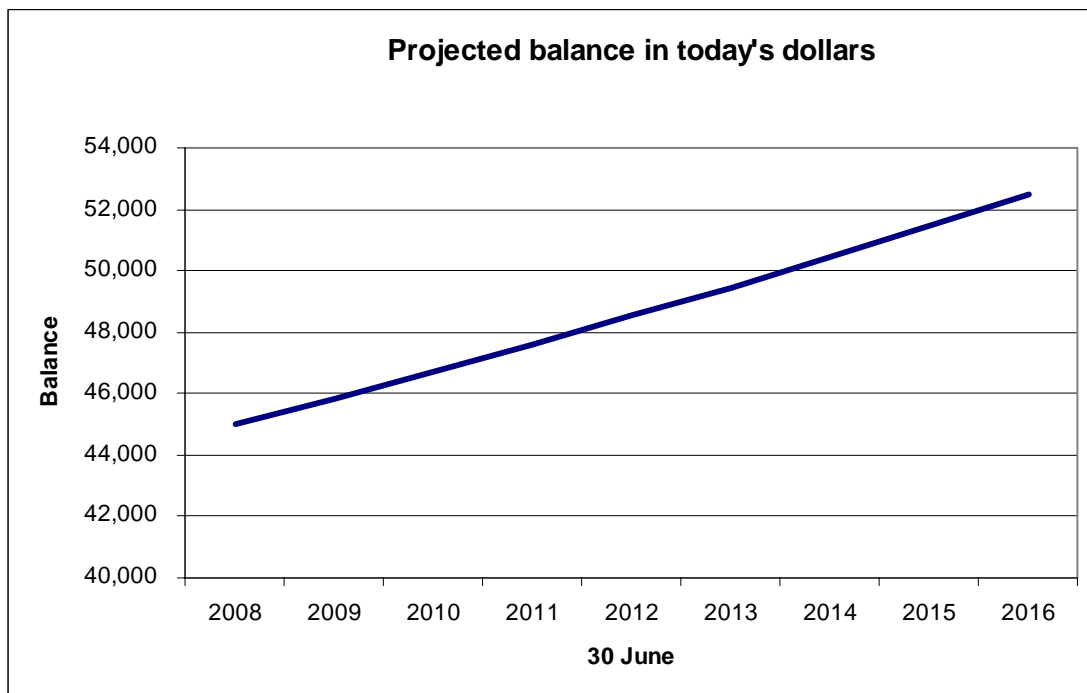
Please note that all results are illustrated in today's dollars, indicating the purchasing power you would have if you received the money today.

Forecast lump sum available at 65 years in today's dollars:

Closing balance as at 30 June 2016 (when aged 65) \$52,485

Forecast annual income available from 65 - 95 years in today's dollars:

Annual income for 30 years \$2,633  
Monthly income for 30 years \$223



IFSA notes that ASIC intends to craft explicit disclaimers and statements on the limited nature of the projection and assumptions when issuing the Class Order.

IFSA suggests that certain caveats be explicitly added to graphical representations including noting that the projection may change substantially depending upon a number of factors, in particular investment performance and contribution rates.

IFSA does not foresee any difficulties with the draft provisions on Warnings & Disclosures. We believe that Insurance Premiums should be included as part of the Fees and Costs component, which should comprise all investment fees, administration fees and insurance premiums.

We look forward to working with ASIC and the Government Actuary in determining standard assumptions for Investment Earnings, Fees and Costs and Insurance Premiums.

*B1Q3. Can you foresee any specific difficulties in calculating forecasts in the manner specified in Section C of the draft regulatory guide? If so, please provide details.*

IFSA has identified a number of difficulties with calculating forecasts under Section C of the Draft Regulatory Guide in terms of Investment Earnings, Fees and Costs.

#### *Insurance Premiums*

The standard assumption on Fees and Costs should include Insurance Premiums. For simplicity and consistency purposes, fees should be expressed as one figure comprising investment and administration fees and insurance premiums.

#### *Retirement Age*

As expressed in our response to B1Q2, we believe that the forthcoming Class Order should clarify that the retirement age is 65 years of age and that life expectancy is a fixed 30 year period beginning at age 65.

A clear statement could be provided alongside the forecast to alert members that this may not correspond with their preservation age and that if they have any questions to contact their fund or their adviser.

#### *Salary and Contribution Levels*

Super funds generally do not have information on an individual's salary level. Funds have information that relates to the two types of contributions received into member accounts during the year – concessional and non concessional.

Concessional contributions may comprise the mandatory 9% Superannuation Guarantee, additional employer contributions or additional member contributions made under salary sacrifice arrangements.

IFSA therefore supports an approach that focuses on contributions as opposed to salary. The starting point for all forecasts should be the member's current account balance determined in line with current practice in issuing superannuation statements.

Future contributions should be assumed to continue on the same basis as current regular contributions (concessional and non concessional) received in the previous 12 months. It is especially important to remove any lump sum contributions as these are not part of a regular savings pattern and will distort the forecast.

This approach will illustrate the impact of the continuation of recent savings behaviour. If the person has contributed nothing in the last year, they will see the impact of continuing to contribute nothing.

This is a powerful and important way to communicate the consequences of the investment based on behaviour that is personal and meaningful to the investor.

IFSA believes that this approach (with the support of online calculators) will help people understand the effects of time out of the workforce without contribution to their superannuation.

As already indicated, using this approach will also ensure that the forecast will be self correcting year-on-year. The closer the member gets to retirement the more accurate and meaningful the forecast will become.

IFSA would be pleased to discuss these matters in more detail with ASIC.

*Other*

We do not foresee any difficulties with Pension or Member's Other Fund calculation requirements.

*B1Q4. Can you foresee any specific difficulties in giving forecasts at the same time as periodic statements at the same time as periodic statements? If so, please provide details.*

No.

*B1Q5. For Super Fund Trustees, how long a lead-in time will you require in order to provide forecasts to your members at the end of the 2010 reporting period?*

Over a period of three years it is expected that most IFSA members would be providing forecasts.

## Proposal B2:

*As part of the standard methodology for calculating forecasts set out in Section C of the attached Draft Regulatory Guide, we propose that funds would need to apply a single standardised rate, for both investment earnings and fees and costs.*

*B2Q1. Do you think investment earnings should be calculated using:*

- a a single assumed rate;*
- b multiple assumed rates; or*
- c some other methodology.*

*Please state the reasons for your answer.*

It is our strong view that a single assumed rate for the calculation of investment earnings is the most appropriate method for meeting the objectives of this initiative. IFSA members support the standardisation of all assumptions that are used, including investment earnings.

Importantly, standardisation will ensure that investors do not use forecasts they receive as the basis for comparing funds and instead focus members on their retirement savings and its adequacy at the time of likely retirement.

IFSA also agrees with the indication in the Draft Regulatory Guide that the common assumptions would be set by the Government Actuary.

*B2Q2. Do you think fees and costs should be calculated using:*

- a a single assumed rate;*
- b multiple assumed rates; or*
- c some other methodology?*

*Please state the reasons for your answer.*

This question was addressed in B2Q1, see above.

### *Forecasts –Additional Comments*

#### 1. Terminology

IFSA remains of the view that forecasts should be known as an “End Benefit Estimates” or a “Super Estimate”. A forecast or a projection suggests a predication or a promise of the future whereas an estimate is a more accurate description of the process at hand.

IFSA believes that it is preferable to act cautiously with terminology, particularly given the level of apathy in superannuation. Expectations of super fund members must be carefully handled, therefore conservative terminology is only prudent.

Although we remain of the view that estimate is a more accurate description, throughout the course of this submission, IFSA has used the term forecast in order to provide consistency with the Draft Regulatory Guide.

#### 2. Presentation

IFSA believes there is a need for clear warnings in the presentation of forecasts. In our view, the following warnings should be mandatory in the presentation of forecasts:

- This forecast is an estimate only;
- This forecast should not be used to compare funds;
- You should contact your provider if you are unclear of what the forecast is telling you; and
- Your preservation age may vary from the age of 65 that has been used in the forecast.

**Proposal C1:**

*We propose to give guidance for providers of calculators relating to superannuation products, who are relying on the relief given in CO05/1122 as to how they will best be able to satisfy the condition of relief that the default assumptions applied by the calculator for the purposes of working out the forecast must be 'reasonable' (unless altered by the user). That is:*

- a providers will best be able to satisfy this requirement, by ensuring that the default assumptions used by the calculator, are as close as possible to those we have set for forecasts; and*
- b where calculators illustrate alternative strategies, providers will need to ensure that alternative assumptions applied, are reasonable.*

**C1Q1.** *Can you foresee any specific difficulties in applying the assumptions we have set for forecasts as the default assumptions for superannuation calculators?*

IFSA concurs with the Draft Regulatory Guide that superannuation providers should rely first and foremost upon the default assumptions that have been set for calculating forecasts.

According to the Draft Regulatory Guide the relief granted will allow providers to diverge from the default assumptions in order to develop alternative strategies so long as alternative assumptions are "reasonable".

We believe calculators fulfil a very different purpose to generic and standardised forecasts. Calculators are an interactive tool that allows individuals to tailor a range of parameters to more accurately assess the impact of:

- different investment options;
- increased contributions; and
- lower fees.

We therefore seek clarification that product calculators will continue to be customised in this manner.

**C1Q2.** *What other guidance on the provision of superannuation calculators would assist you?*

Nothing at this point.